BUSINESS IN BRIEF

The critical phase of the current business adjustment is approaching. If it is to prove moderate, as most observers believe, a leveling in the production curve should appear in the next few months. A review of recent trends shows that prospects for such a leveling appear favorable.

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The main impact of the inventory adjustment has already been absorbed. Last year business added to inventories at a rate of almost $11½ billion in the first quarter and cut them at a rate of some $2-3 billion in the fourth quarter. This swing in inventory policies was the major factor in the decline in industrial production.

In the process, inventories of most raw materials and supplies were worked down to relatively low levels. Some further working off of stocks of finished goods appears to lie ahead. However, the over-all *rate* of run-off could hold fairly steady in the current quarter. This would mean that no additional downward pressure would be applied to production.

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The decline in business expenditures for new plant and equipment — a second major area of adjustment — could prove moderate. New orders for machinery remain relatively high. The SEC-Commerce survey shows that business plans for expenditures in the current quarter are only 4% below the peak in mid-1960.

So far corporate profits appear to be holding up somewhat better than in previous periods of business adjustment. This is due in large part to vigorous efforts by business to increase efficiency. Continuing efforts to improve profit margins will be necessary to generate an upturn in business capital investment.

In housing, a third area of adjustment, trends point to a leveling in recent months. Mortgage markets have eased considerably. However, reports from across the nation show that demand is the limiting factor. Thus, most observers look for no more than a moderate improvement in housing starts this year.

Auto sales were strong in the fourth quarter, in part because of the efforts involved in working off large stocks of 1960 cars. However, December sales ran behind production and stocks rose to 1.1 million at year-end. Some reduction in output now is underway and is likely to persist unless sales outpace expectations.

When prospects in these areas of adjustment are added up, the total for the current quarter comes very close to that for the fourth quarter of 1960. This is significant since these areas account for more than one-sixth of gross national product.

Meantime, the other five-sixths of the economy is moving ahead. Government purchases of goods and services are increasing. Consumer expenditures for nondurable goods and services could be moderately higher in the first quarter of 1961. Exports have held up well.

All in all, it would appear that business activity could level off in the next few months. The task then would be to bring about a renewed advance. Fundamentally, this calls for continued efforts to work through the inventory adjustment, restore the incentives for business capital investment and promote an increase in consumer expenditures for durable goods.

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Even with this leveling in over-all economic activity, unemployment could be relatively high in the first quarter. The seasonally adjusted annual rate of unemployment is approaching 7%, the level it reached in early 1958. As this happens, the question will be raised as to whether special action should be taken.

Experience shows that crash programs to create employment by government spending can be wasteful and do not take effect in time. In 1958, for example, the major increase in expenditures came after the upturn in general business was already underway. The fact that a leveling in the business curve is now in prospect suggests that an upturn could take place before mid-year, as it did in 1958. Thus, emergency spending programs would be ill-conceived.

However, considered action to remove some of the impediments to economic growth could contribute to a vigorous recovery from the current period of adjustment. Steps to encourage investment, for example, by providing more realistic tax treatment, could improve prospects for a strong revival in business later in the year. Moreover, a program that concentrated on fundamental factors and promised to promote longer term prosperity and growth with stable prices would assure confidence at home and abroad. The element of confidence is an essential ingredient for success in dealing with the problems that lie ahead.

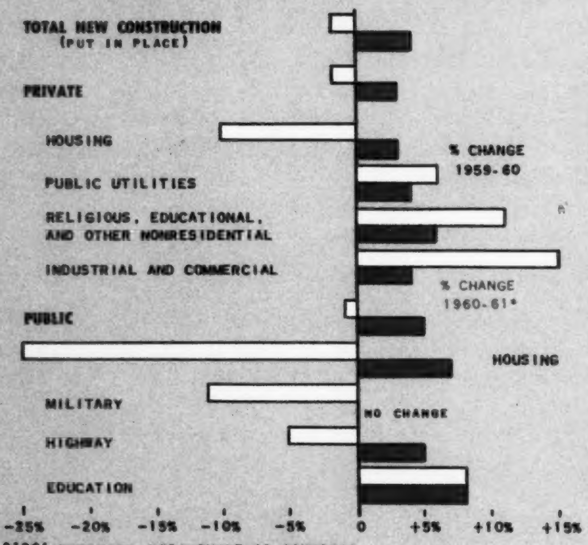
TRENDS IN CONSTRUCTION

New construction totaled $55 billion in 1960 – a decline of 2% from 1959's record level. The drop, although relatively small, is noteworthy for 1960 is the first year in the postwar period when spending on new construction failed to expand.

Steady Postwar Growth

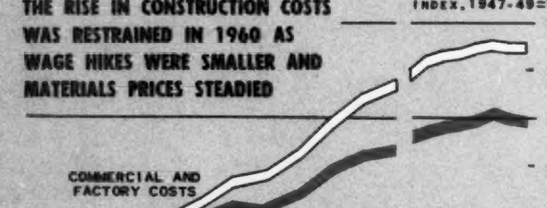
From 1947 to 1959, the physical volume of new construction, after adjusting for price changes, increased at a rate of 6½% a year – compared to a growth rate of 3½% for the economy. Backlogs built up in earlier years, together with the growing needs of an expanding population, created strong basic demands. Housing, which made up one-half to three-fifths of private construction during these years, was an important source of strength for most of the period. And, upward momentum in total construction from one year to the next was insured by a combination of other factors.

DOLLAR VALUE OF NEW CONSTRUCTION FELL FOR ITS FIRST POSTWAR DIP – 1961 MAY SEE A GAIN



*1961 ESTIMATE- DEPARTMENT OF COMMERCE

THE RISE IN CONSTRUCTION COSTS WAS RESTRAINED IN 1960 AS WAGE HIKES WERE SMALLER AND MATERIALS PRICES STEADIED



DATA: E.H. BOECK & ASSOCIATES, DEPARTMENT OF COMMERCE AND THE BUREAU OF PUBLIC ROADS

- Individual sectors of construction fluctuated widely, but gains in expanding areas tended to be larger than losses. In six out of the last ten years housing and business construction moved in opposite directions.
- Government construction was an expansionary force, rising 135% from 1950 to 1959 compared to 72% for private construction. Gains in the public sector sustained an increase in total construction when private activity dropped in 1949 and in 1958.
- Rising costs inflated dollar values. From 1955 to 1958, dollar value increased 10.6% even though physical volume was unchanged.

The Picture in 1960

What happened in 1960 to arrest the uptrend in spending? Several distinct elements appear to have been at work. Housing expenditures declined by 10%, following a dramatic 1959 gain which stemmed in part from 1958 anti-recession measures. Other private construction improved – industrial moved up 38%; religious 10%; commercial 5%. However, these gains, when measured against the $2.5 billion drop in housing, were not large enough to prevent a decline of close to $1 billion in the private sector. At the same time, government construction was off slightly for the first postwar drop – as highway construction and military housing fell.

Finally, the rise in construction costs slowed as smaller wage settlements were negotiated and materials prices were steady or declining. Composite costs rose only 1.4% compared to an annual average of 3.5% for 1947-59.

Altogether, the minuses outweighed the pluses for a net decline of a little more than $1 billion in total construction. Does this mean a serious break with the postwar pattern? Not according to the construction outlook report of the Department of Commerce, which indicates that 1961 could see a modest gain in construction activity. Dollar value may reach a record level with physical volume second only to 1959.

What could provide the upward impetus? By year-end there were signs that the decline in housing may have bottomed out. A spectacular gain is not anticipated (for the next few years, population factors will be operating against the housing industry), but an improvement over 1960 could be achieved. A large carryover from the improved level of activity in 1960 could produce an increase in industrial and commercial construction in spite of a cutback in business plans for investment in plant and equipment. At the same time, other nonresidential building, such as education and religious facilities, may continue to rise. Finally, government spending is scheduled to pick up, with a reversal of the downtrend in highway and housing construction.

Altogether, then, construction should provide substantial support to the economy in the year ahead as it has through the postwar period.

RETAIL TRADE

Advance reports indicate that retail sales in 1960 reached a new high. Estimates are that sales were close to $220 billion – a gain of 2% over the previous year. Even so, retailers' reactions to the year were mixed, for there were notable weak spots in the sales picture.

Sales Peaked out in the Spring

In the first place, over-all sales did not match the gain in consumer income. Personal income after taxes rose 5% in 1960. This high level of income was a source of strength, even though the rate of growth slowed perceptibly as the year progressed. However, spending at retail, after adjustment for seasonal factors, reached a peak during the Spring. The widening gap between trade sales and income was filled by rising expenditures on services (up 7%) and an increase in personal saving of almost 15%.

The unbroken rise in services appears to be related to longer run trends. In the postwar period, outlays on services have risen much more rapidly than spending at retail. Between 1956 and 1960 alone, retail sales increased 16% against a 21% gain in income after taxes. Spending for services, in contrast, rose 32%.

Part of this difference reflects a price phenomenon. In recent years service prices have risen twice as fast as prices of commodities consumers buy – 3.2% per annum against 1.6%. And, some retail commodity prices barely moved in this period. Furniture prices, for example, increased only 2% from 1956 through 1960 and appliance prices actually fell almost 2%. This means purchasing a fixed amount of services (e.g. a year's college education, a week in the hospital, an afternoon in the beauty parlor) required an increasing outlay of dollars over the years, while for some categories at retail the same or fewer dollars could purchase a given commodity. On top of the price situation, retail trade has had to fight against the inroads made by the accelerating real demand for such services as education and medical care.

Experience Varies by Line of Trade

Some lines of trade performed better than others in 1960. Softgoods and other nondurables continued their postwar record of year to year gain to chalk up a sales increase of more than 3%. However, the sales rate reached a high in the Spring, then was almost level for the rest of the year. What's more, the 1960 gain, though substantial, was considerably below the 4½% increase that has been the average in recent years.

Almost all types of nondurables followed the over-all pattern – of stability in the sales rate for the last several months, together with a percentage gain for the year as a whole. Gasoline service stations, food, and drugstores continued to lead in their growth rates; apparel and general merchandise stores registered smaller gains.

Durable goods stores did not fare as well, with dollar volume for the year off about 1%. The performance of autos prevented the decline from being larger. Unit sales of new cars were up 11%, from 6 million to almost 6.7 million units. However, the wide acceptance of compact cars contributed to a decline of about 3% in the average price of new cars, while the index of used car prices dropped precipitously – in December it was 13% below a year before. The net result was almost no change in the dollar value of retail sales for the auto group. At the same time, sales of other durables were down. Home furnishings were off more than 2% and appliances almost 3.5%, in part because of the decline in housing.

Trends in durable goods sales are reflected in consumer credit. Extensions of instalment credit were at an all-time high in the Spring of 1960 and equaled 23.4% of retail sales. Since then new extensions have slacked off in dollar value and as a proportion of trade. Repayments of earlier loans are still at peak levels and in recent months amounted to 13.4% of personal income after taxes. Experience in the 1957-58 recession suggests that, when the burden of repayments reaches this level in relation to income, consumers become increasingly reluctant to expand debt further.

For the year ahead, economic factors support a view of cautious optimism for retail trade. This is consistent with the findings of recent surveys of consumer opinion which seem to indicate that consumers, while not exuberant, are relatively more optimistic than they were at a comparable stage of the 1957-58 recession. However, the competition between retail trade and the services for the consumer's dollar can be expected to continue.

SALES OF NONDURABLES CONTINUED TO GAIN IN 1960; DURABLES FAILED TO EXPAND

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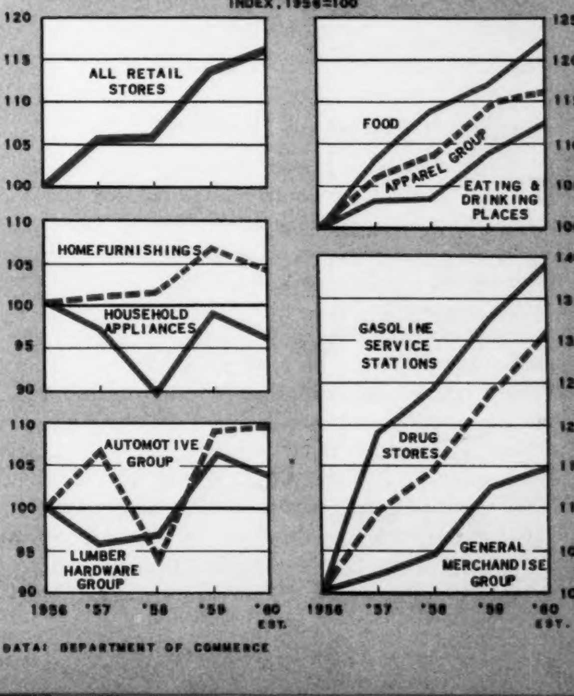


DATA: DEPARTMENT OF COMMERCE

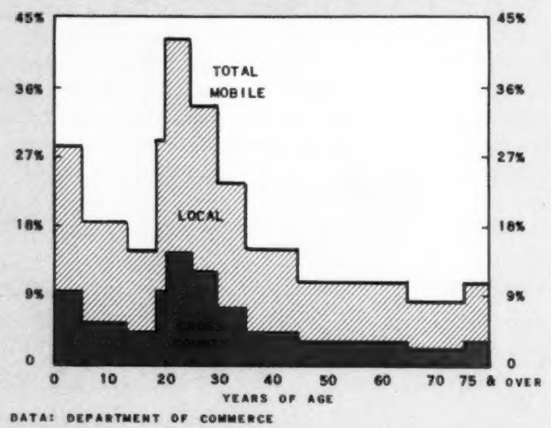
MOBILE AMERICANS

The U. S. is rapidly and continuously being transformed. One of the key elements in this process is the extensive mobility which is characteristic of the American people. To change homes, jobs, occupations and ways of living is a common occurrence.

This trait has been an integral part of U. S. history. The waves of immigration, the settlement of the West, the freedom and willingness to choose and change work, and the drive for advancement are major historical examples. Thus, the pattern of movement and change has come to be taken for granted.

Yet it is both unusual and significant that the venturesome spirit is as prevalent in the U. S. today as it was in the early days of our country, and that Americans are generally considered to be far more mobile than people in other countries of the world. Since this mobility will continue to play a key role in the U. S., let's examine its extent, its patterns and some of its effects.

PEOPLE AGE 20-24 ARE MOST MOBILE; 42% OF THOSE IN THIS AGE GROUP MOVE IN A YEAR



Residence: Regions and Environs

For a start, look at residential mobility. In one year, some 33 million Americans move from one home to another. That's one person in every five. Most of these people move a relatively short distance, but 11 million, or one mover in three, go to a different county and half of these cross state lines.

Over the years, these proportions seem to have held relatively constant. In prosperous times, local moving seems to be somewhat more frequent. But fluctuations in the mobility rate over the past 15-20 years have been slight, and Census data show a constant rate of interstate migration for more than a century.

A substantial part of this mobility consists of an interchange of people; a stream of people into an area is usually in large part counterbalanced by a movement in the opposite direction. Evidence of this is that by 1950, all of the states had received at least 10% of their population from other states. In fact, five of the ten states with the largest proportion of residents born out-of-state were also among the ten states which contributed the greatest number of out-migrants to other states.

Some areas, however, did have sizeable net in- or out-migration. Most of these have resulted from one of four major trends:

- **The Westward Movement:** Of the 12 states which have reported gains through migration at each Census since 1870, nine are Western states, and seven of these now have more residents who were born out-of-state than in it. As a result, the population of the West increased by at least twice the national rate in every decade but one over the past century. Currently, the stream of westward migration seems to be slowing somewhat and shifting to the Southwest.

- **South-North:** Six Southern states are among the ten with out-migration since 1870. More than 10% of those born in the South now live in the Northeast and North Central regions, and the proportion has been steadily increasing. In addition, more Southerners are moving westward. Part of this out-migration has been offset by an increasing migration into the South, particularly to Florida and the coastal areas — toward which Southerners are also moving.

- **From the Farms:** The exodus from the farms, while not regional by definition, has influenced the geographical redistribution of the population. A recent survey reports that of the people who grew up on the farm, two out of three have moved off the farm. As a matter of fact, one of every three adults living in some type of urban or residential center was reared on a farm.

- **Into Metropolitan Areas:** Finally, there's the tremendous move into metropolitan areas. Migration into the cities in recent years seems to have been more than offset by the trek from city to suburb. The suburbs are also augmented by direct migration from rural areas. Thus, while many cities have not been growing, the population of the suburbs is half again as large as it was in 1950.

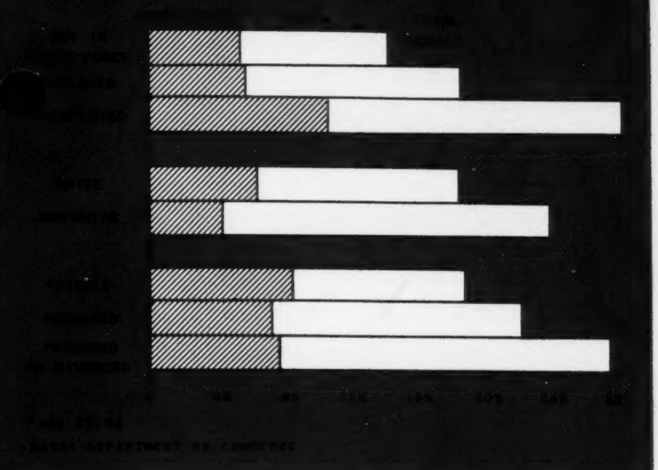
The sum of this residential mobility is so great that it involves the majority of the population within a few years, and almost everyone in a lifetime. No more than 3% spend their whole life in one dwelling; not over 15% always live in one county.

The Changing Workforce

Labor mobility is even greater than residential mobility. One way to measure this is by the number of times someone is taken off a payroll. Using the rate for manu-

A LARGE PROPORTION OF THE PEOPLE IN SOME GROUPS ARE MOVERS — NOTABLY THE UNEMPLOYED

% of all people in each category who moved during the year



facturing as a rough estimate for all industries (including agriculture and construction where mobility is greater) the number of separations during a year totals 23 million.

This does not mean that one-third of the labor force works for more than one employer during the year. For one thing, this figure counts the number of changes made rather than the number of people who made changes. For another, many separations can be attributed to people who are laid off and later return to their old jobs as well as people who have entered the labor force to fill seasonal or temporary needs.

However, 8½ million people a year leave one employer to work for another, and they make a total of 11½ million shifts. Surprisingly, almost half of these involve a change to a different industry and a different occupation. Another 20% are to a different industry but the same type of job, and 8% are to a different type of job in the same industry. Thus, it is not simply a matter of a new employer, but in the majority of cases a new industry and often a new occupation as well.

Here again, a great deal of the mobility represents an interchange of people. But some industries and occupations have made net gains as a result of job changing:

- Public administration, education and wholesale and retail trade are industries which have gained workers in recent years. Prominent among those which have lost is agriculture.

- Occupation groups into which people have moved include professional and technical workers, managers, officials and proprietors, clerical workers and operatives. Employees have shifted away from unskilled labor, service and craftswork.

Who changes jobs and why? Probably nearly everyone makes at least one change during a lifetime. Work histories of more than three million people which covered a decade showed that two-thirds had changed jobs at least once in that period and that over one-fourth had changed three times or more. These "high mobiles" accounted for much of the job changing (and much of the residential mobility as well).

Some people are much more likely to belong to this high mobile group than others:

- Young people are notably more mobile than older ones. Those age 25-34, for example, are twice as likely to change jobs as older workers. Young people also change residence more than twice as frequently.

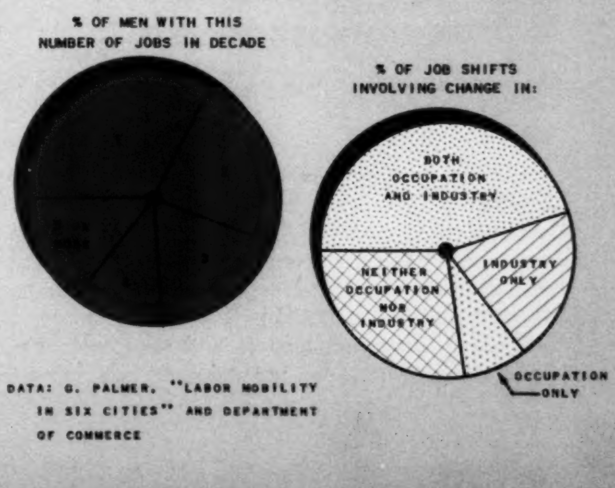
- Those who are in less-skilled occupations or work in industries with declining or fluctuating employment opportunities are more likely to change jobs. Similarly, those who live in depressed or declining areas are more likely to migrate.

It is clear that one of the chief motivating forces behind mobility is a desire for advancement. Thus in a recent year, two-fifths of all people who changed jobs did so voluntarily in order to improve their status. And there is a tendency to move away from areas of rising unemployment though perhaps not in large enough numbers to eliminate the problem.

Actually, changing status is a kind of mobility in itself. The broadening of the middle income market over the postwar period, the increase in home ownership, the greater proportion who have automobiles and appliances and the higher average educational attainment are indirect evidence of the income and status mobility of Americans.

All of this personal mobility takes place within the framework of and in response to changes in the regional and occupational patterns of opportunity. Depressed areas, decentralizing industry, new resources alter the geographical pattern of opportunity. New products, different methods of production, changes in consumption all require changes in employment. The extensive mobility of Americans makes adjustment to these changes possible.

⅔ OF ALL WORKERS CHANGE JOBS IN A DECADE; MOST ENTER BOTH A NEW INDUSTRY AND OCCUPATION



DATA: G. PALMER, "LABOR MOBILITY IN SIX CITIES" AND DEPARTMENT OF COMMERCE

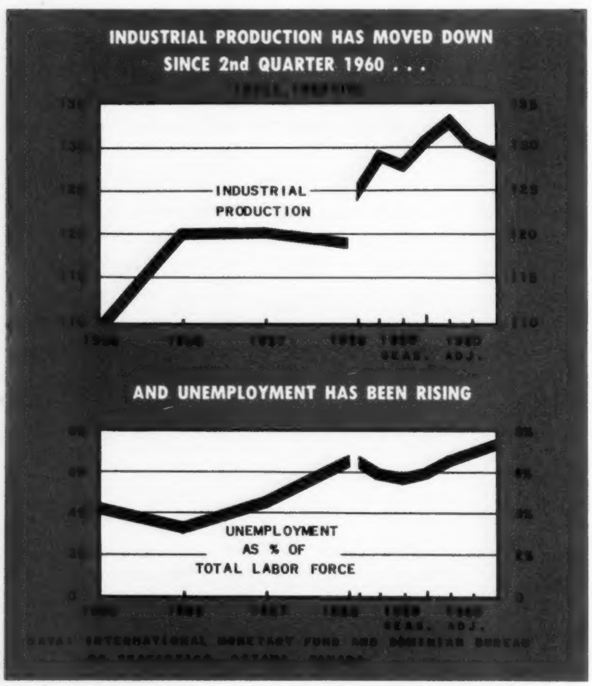
CANADIAN GROWTH

Throughout 1960 the Canadian economy leveled off without important movements either up or down. It had been hoped that the 3% rise in total output in 1959 would be followed by an even more rapid increase in 1960. Instead, industrial production, after moving up almost 2% in the first quarter, fell back in the second quarter, and has since hovered near the end-1959 level. Unemployment climbed from a seasonally adjusted rate of 6% of the labor force at the end of 1959 to well over 7% by the end of 1960.

The lack of vigor in the Canadian economy during the past year has aroused concern over the nation's long-run growth prospects — a concern stemming partly from the break in the postwar growth trend that seems to have occurred around 1956. In the ten years before 1956 the Canadian economy grew at over 5% a year — since then, at a rate of under 2% a year.

The 1960 "Recession"

Several contrary trends were at work during the past year, but none were strong enough to push business



activity far in either direction. Investments and consumption both held up. New plant and equipment expenditures rose, and there was a continued build-up of inventories during the first quarter. But home construction fell off sharply and, in the second and third quarters, inventory accumulation dropped. Consumption expenditures increased very moderately, with retail sales slightly ahead of the year before, but revealing little buoyancy.

On the other hand, government expenditures rose throughout most of the year. Also, exports ran about 6% above the year before. However, the expansion had little direct effect on production because high inventories could be drawn down to fill additional orders.

The balance of these trends led to a rise in gross national product of about 2% from the 1959 level of $34.5 billion. Moderate expansion was also reflected in total employment which in November was 1½% above the previous year. But the labor force grew by more than 3% in the same period and unemployment rose 35%. More than any other single factor, it is the high rate of unemployment that has made the recent Canadian business situation appear as a recession. It underlines the fact that the economy is geared to a rapid rate of growth, which it is not achieving.

Balance of Payments

Often, during the past year, the influence of foreign trade and investments has been put forward as a major cause of Canada's economic problems. Since the United States and Canada have business ties that involve some $6-7 billion in trade and $1½ billion in investments each year, it is worth examining how trade and investments actually affect Canadian growth.

World demand for most commodities rose rapidly shortly after World War II, but tapered off noticeably after 1952. This has had considerable impact on the Canadian economy. Canadians get about 15% of their annual income from exports. So, an annual increase in the real value of exports — in terms of the imports they finance — amounting to 7% would raise total annual income about 1%. Canada's real exports did rise at about this rate until 1952, but since then have risen an average of about 2% a year. Thus, the overall growth rate of the economy may have fallen about ¾ of a percentage point, due to this factor alone.

However, actual growth rates — especially since 1956 — have fallen more than this. Part of the reason is that lower demand for exports was reflected in a lower rate of new investment. Certainly, the boom in western Canada was largely due to the heavy expenditure to develop oil, gas and timber resources. The boom there spread to other parts of the country, stimulating investments in other industries. Thus, between 1948 and 1956 net investments adjusted for price changes rose 7% a year. Since then, except for a small further increase in 1957, net investments in real terms have tended to decline. This decline could probably account for a good part of the slowdown in economic growth in recent years.

Foreign Investment Problems

Thus changes in commodity markets have hit, not only Canadian exports, but investments as well. This has produced a secondary impact on the balance of pay-

ments because a) a quarter to a third of net Canadian investments are financed abroad and b) much of the foreign investments were induced directly or indirectly by favorable commodity prices.

In the short run, the fall-off in foreign investments and the slower rise in exports poses a problem of excess supply of goods and services that the economy has become adjusted to producing at a growing rate. This has led to unemployment which became more pronounced this year. It is also beginning to affect the exchange rate.

The Payments Mechanism

The changes in trade and investment that have taken place since 1952 have not caused real balance of payments difficulties because of the smooth operations of the free exchange market. During most of this period, the Canadian dollar has sold at a premium of from one to six cents in U.S. dollars. In the past year, however, the supply of foreign exchange has not kept pace with growing demand for imports and the premium has fallen from about 5 cents at the end of 1959 to about 1 cent by the end of 1960. This tended to encourage exports and discourage imports, since it had the same effect as a 4% decline in Canadian costs and prices, and has thus improved Canada's competitive position in world trade.

In Canada, the excess of imports over exports has frequently been called a balance of payments deficit – a term that technically implies that Canada is losing gold and foreign exchange. Yet this is not happening, and could not happen so long as the exchange rate is permitted to go to any level required to keep the supply and demand for foreign money in balance. There is an import surplus, however, which is a consequence of the capital inflow. The inflow leaves a margin of foreign money to buy goods and services abroad which the nation could not otherwise afford.

Some Canadians feel that capital imports should be discouraged and that goods now imported should be produced locally. Partly for this reason several laws were passed toward the end of 1960 that discriminate against foreign capital and may result in higher tariffs.

If these policies are effective they will reduce the flow of new foreign capital without coming to grips with the basic problem of spurring economic expansion.

Shift in Emphasis

Canada has achieved rapid growth in the past by maintaining a high level of investments – and will need a high level in the future if it is to again grow rapidly. It is unlikely that domestic savings will be adequate for this, and a substantial flow of foreign capital will be required. The real problem will be to maintain such a flow in the face of the possibility that world demand for Canada's traditional exports may grow slowly.

Given a business climate not unfriendly to foreign investments, there are bound to be many productive investment possibilities. Canada has the advantage of being an industrial nation; 28% of income is generated in manufacturing, compared with 31% in the U. S. But a further shift in emphasis toward more highly manufactured goods and a further decline in the raw material content of basic exports could be made. In this manner, Canada might again progress at a rate comparable to that of the earlier postwar period.